

Message Text

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ACTION SS-30

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1607

INFO AMEMBASSY JAKARTA

S E C R E T TOKYO 5666

EXDIS

E.O. 11652: GDS

TAGS: ENRG JA ID

SUBJ: INDONESIAN LNG

REF: A. STATE 83005 B. TOKYO 5226

SUMMARY: GROUP V.P. OF PACIFIC LIGHTING (PL), ACCOMPANIED BY E/COUNS, MET YAMASHITA, VICE DIRECTOR OF MITI, APR 27 TO DISCUSS INDONESIAN LNG. YAMASHITA WAS CLEARLY SURPRISED THAT PL HAVING PROBLEMS WITH INDONESIA. AFTER LISTENING TO PROCTOR'S ACCOUNT REGARDING EFFECT THAT JAPAN'S ACTION WOULD HAVE ON WORLD LNG MARKET, YAMASHITA SAID HE WOULD ATTEMPT TO FIND AN OPPORTUNITY TO REMEDY THE SITUATION. YAMASHITA ALSO NOTED PERSONAL BELIEF THAT EXCHANGE OF INFORMATION BETWEEN ENERGY CONSUMERS FACING SIMILAR SITUATIONS COULD BE VERY USEFUL. EMBASSY BELIEVES MEETING SUCCESSFUL IN MAKING YAMASHITA, AN INFLUENTIAL BUREAUCRAT, AWARE OF FACTS AND CONSEQUENCES OF JAPAN'S DEAL WITH INDONESIA ON LNG, BUT IS NOT SANGUINE THAT THERE WILL BE ANY IMMEDIATE CONCRETE RESULT. END SUMMARY.

1. AS INDICATED REF (B), EMBASSY ARRANGED CALL FOR HARVEY PROCTOR, GROUP VICE PRESIDENT OF PACIFIC LIGHTING (PL), ON MITI VICE MINISTER YAMASHITA ON APR 27 TO DISCUSS INDONESIAN LNG. E/COUNS ACCOMPANIED PROCTOR.

2. E/COUNS BEGAN CALL BY BRIEFLY EXPLAINING CONCERN OF
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USG OVER ADVERSE IMPACT ON WORLD LNG MARKET PRICE

RESULTING FROM JAPAN-INDONESIA LNG DEAL. PROCTOR THEN GAVE YAMASHITA ACCOUNT OF PREVAILING WORLD LNG PRICES BEFORE PL-PERTAMINA DEAL AND HOW PL PRICE WAS HIGHEST PRICE PAID UNTIL THEN FOR LNG, BUT WAS SET IN SUCH WAY AS TO PROTECT KNOWN JAPANESE PRICE LIMITATIONS (SEE PARA 4). HE THEN EXPLAINED DETAILS OF JAPAN-INDONESIA LNG DEAL AND SUBSEQUENT EFFECTS AGREEMENT HAVING ON PL IN INDONESIA, ON ALGERIAN LNG PRICES, AS WELL AS ON PRICE OF MALAYSIAN GAS FOR WHICH JAPAN NOW NEGOTIATING.

3. YAMASHITA RESPONDED THAT AMBASSADOR INGERSOLL HAD DISCUSSED INDONESIAN LNG WITH HIM IN FALL OF 1973 AND THAT JAPAN HAD MAINTAINED ITS BASIC POLICY, EXPLAINED TO AMBASSADOR INGERSOLL, OF COOPERATING WITH US BY NOT MONOPOLIZING ALL AVAILABLE INDONESIAN GAS. YAMASHITA ADDED THAT HE WOULD HAVE THOUGHT THAT ALL ASPECTS OF INDONESIAN LNG DEALS WOULD HAVE BEEN PROGRESSING SMOOTHLY AT THIS POINT. HE THEN TURNED TO TOYOSHIMA, HEAD OF MITI'S PETROLEUM DEVELOPMENT DIV. (WHO PARTICIPATED IN JAPAN'S NEGOTIATIONS WITH INDONESIA) AND ASKED SEVERAL POINTED QUESTIONS INCLUDING WHY JAPAN HAD AGREED TO PAY SUCH A HIGH PRICE FOR LNG. TOYOSHIMA NOTED CONTRACT HAD BEEN NEGOTIATED AT HEIGHT OF ENERGY CRISIS AND DEFENDED LINK BETWEEN LNG AND OIL PRICES. YAMASHITA AGREED THAT AT TIME JAPAN HAD HAD LITTLE CHOICE BUT TO ACCEPT SOME FORM OF LINK BETWEEN LNG AND OIL PRICES. HOWEVER, YAMASHITA THEN SAID JAPAN WOULD TRY TO FIND SOME OPPORTUNITY IN FUTURE TO QTE REMEDY THE HIGH PRICE AND THE RELATIONSHIP TO CRUDE OIL UNQTE.

4. PROCTOR AGAIN STRESSED THAT PRICE PL HAD AGREED TO PAY PERTAMINA (\$0.63) HAD BEEN SET ON BASIS OF KNOWLEDGE RE NEGOTIATIONS TOKYO GAS HAD HAD WITH ABU DHABI AND DESIRE NOT TO GO BEYOND WHAT TOKYO GAS HAD THEN INDICATED TO BE ITS MAXIMUM PRICE. YAMASHITA ASKED WHETHER PL HAD DISCUSSED ITS CONTRACT WITH JAPAN BEFORE JAPANESE FIRMS HAD SIGNED AGREEMENT WITH INDONESIA. PROCTOR REPLIED THAT PERTAMINA HAD EXTRACTED PL'S PROMISE THAT THIS WOULD NOT

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BE DONE UNTIL TERMS OF CONTRACT BECAME PUBLIC, WHICH WAS ONLY RECENTLY. YAMASHITA THEN COMMENTED THAT HE PERSONALLY FELT THAT IN FUTURE EXCHANGE OF INFORMATION BETWEEN ENERGY CONSUMERS IN SAME SITUATION COULD BE VERY USEFUL. YAMASHITA EXPRESSED HOPE THAT PL NEGOTIATIONS WOULD BE SUCCESSFUL, AND AGAIN SAID HE WOULD LOOK FOR AN OPPORTUNITY TO REMEDY THE SITUATION.

5. COMMENT: APPOINTMENT WITH YAMASHITA, ORIGINALLY SCHEDULED FOR FIFTEEN MINUTES, LASTED THIRTY MINUTES DESPITE EFFORTS OF AIDES TO END IT EARLIER. YAMASHITA, WHO PERSONALLY TOOK NOTES ON PROCTOR'S PRESENTATION, SEEMED SURPRIZED THAT JAPAN HAD AGREED TO PAY PRICE FAR IN EXCESS OF WORLD MARKET LEVEL AND THAT PL FACING PROBLEMS CAUSED BY THIS ACTION. PROCTOR WAS PLEASED WITH INTERVIEW AND NOTED IT REPRESENTED FIRST TIME ANY JAPANESE HAD EVEN SUGGESTED POSSIBILITY OF RENEGOTIATION OF CONTRACT WITH INDONESIA. EMBASSY CONTINUES TO BELIEVE THAT CHANCES OF JAPAN'S ATTEMPTING TO RENEGOTIATE CONTRACT ARE SLIM; HOWEVER, WE BELIEVE INTERVIEW SUCCESSFUL IN DEMONSTRATING TO IMPORTANT JAPANESE ENERGY POLICY MAKER THAT SHORT SIGHTED DECISIONS IN ENERGY AREA ARE EVENTUALLY HARMFUL TO ALL CONSUMERS. SHOESMITH

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